How crypto regulation could create a new boom in the market

The rise of cryptocurrencies and other digital assets to prominence has been nothing short of meteoric. This is hardly surprising, considering the general ascent of technology over the years, and a growing mistrust of centralised, state-influenced currencies and banks that many consumers and traders have developed since the 2009 financial crash.

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Accompanying the ascent of crypto is the emergence of retail investors – many of whom rely on retail brokerage platforms and cryptocurrency exchanges. As such, the concept of ‘social trading’ has grown to such an extent that newcomers can now be the part of financial markets for the first time. The proliferation of this trend has shaken up the investment world, demonstrating a departure from the traditional sense of trading and investing.

There is little wonder, therefore, that decentralised assets that could offer the potential for high returns, regulatory loopholes, and even an inflationary hedge, have encouraged 10% of Europeans and 16% of Americans to invest. Crucially, independent of both an operator and collateral, crypto prices are not based on any physical asset (for example, fiat currency, gold, etc.), making them a purely speculative investment opportunity.

Consequently, these opportunities carry substantial risks. Some experts have warned that the crypto market is forming a ‘bubble’, with very similar characteristics to the 2008 economic crisis. Indeed, it is worth remembering that the speculative nature of the crypto market makes it extremely volatile.

Avoiding common pitfalls

Indeed, many investors may lack the experience or knowledge to avoid these issues, which could lead them into suffering significant losses.

Firstly, cryptocurrencies are uniquely vulnerable to fraud or theft. This is a significant issue; in 2021, there were over *$14B* of stolen assets, doubling 2020's *$7.8B*. In short, this is because proof of ownership and management of assets is facilitated by a public and private key on the blockchain. Should a fraudster or thief gain access to this private key, then they would be able to access and steal assets anonymously. As such, investors may benefit from considering crypto CFDs to reduce risks.

Crypto assets are also susceptible to market manipulation. For example, 'social trading' has facilitated a rise in 'pump and dump' scams, wherein groups of investors can convene on social media platforms like Reddit to create an illusion in the market of a high value asset. By withdrawing when the price has peaked, they can benefit from the fallout. Often, it is the leaders of these scams that profit, with fledgling investors suffering the consequences.

Ultimately, this demonstrates the dangers of major price fluctuations, which are particularly prevalent in the crypto markets. So, without the expertise of an institutional trader, some individuals may lose their composure. Moreover, choosing a reliable trading platform, such as *HYCM Trader mobile app*, is now more important than ever when considering investments in crypto.

Could regulation help?

Some members of the crypto ecosystem believe that regulation could have a negative impact. They argue that the rapid rise of crypto would be hampered as regulations would increase the obstacles for new investors, as well as contradicting the essence of why cryptocurrencies were invented.

However, recent market crashes have sparked a fresh debate about implementing regulatory frameworks. In short, regulatory intervention would make the crypto space a much safer place to invest.

An obvious benefit of regulation would be the crack down on fraudulent activity. Inevitably, ramping up oversight of the market would reduce the level of crime, legitimising and protecting the growth of emerging crypto assets. Without further regulations, long-term and less experienced investors alike may be cautious of investing due to the lack of security. So, regulatory oversight could allow a wider range of people to dip their toes into the crypto arena.

A similar argument can be applied to companies looking to innovate. Whilst crypto still largely sits outside of mainstream, firms will be hesitant to integrate crypto innovations into their business model - new regulations may bring more companies into the fold, expanding the market.

What next for digital assets?

Particularly in the current climate where inflation is high and growth is dwindling, more investors are looking to crypto. Indeed, digital assets will no doubt continue to innovate and evolve as investors weigh up their options.

Already, non-Fungible Tokens (NFTs) have burst onto the scene. Valued at $3B and projected to reach £13.6B by 2027, there are plenty of opportunities for investors who jump into the market early. Additionally, the prospect of Elon Musk's – an infamous crypto advocate – Twitter takeover might make the platform even more crypto-friendly, leading to fresh interest in the market and more social trading.

Although investors may view previous attempts to regulate crypto negatively – the price of Bitcoin dropped by 8% in a single day when China banned transactions of the cryptocurrency in 2019, for example – fresh regulation is ultimately likely to bring with it new investors and new innovative assets. With better protection for investors, these regulations could secure the future success of the market, paving the way for a future trading landscape that investors can be excited about - something which we recognise and support at *HYCM*.

High-Risk Investment Warning: CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 70% of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money. For more information, please refer to HYCM's Risk Disclosure.

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